

**BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON DC 20268-0001**

MODIFICATION OF COSTING METHODS)
2008—POSTAL SERVICE PROPOSAL) Docket No. RM2009-1
TWELVE)

**COMMENTS OF
MAGAZINE PUBLISHERS OF AMERICA, INC.,
AND ALLIANCE OF NONPROFIT MAILERS**

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Magazine Publishers of America, Inc. (“MPA”) and Alliance of Nonprofit Mailers (“ANM”) respectfully submit these comments in response to Order No. 130, Notice of Proposed Rulemaking on Costing Methods Used in Periodic Reporting (Proposal Twelve), issued by the Commission on November 7, 2008 and published at *Administrative Practice and Procedure, Postal Service*, 73 Fed. Reg. 67455 (November 14, 2008). Proposal 12 consists of a series of proposed improvements to the Commission’s cost models for flats generally, and the model for Periodicals in particular.¹

The proposed changes, which generally are the result of field work conducted by the Postal Service to update model inputs and address matters raised in the FY 2007 Annual Compliance Report (“ACR”), should be used for the FY 2008 ACR. The Postal

¹ Petition of the United States Postal Service requesting Initiation of a Proceeding to Consider Further Proposed Methodology Changes for the FY 2008 ACR (Proposed Twelve) (November 4, 2008) at 1.

Service also should be commended for the significant effort invested in these changes, which deal with issues raised in the FY 2007 ACR, and align the Postal Service's flats cost models more closely with actual postal operations.

As explained in Section I below, one aspect of the Postal Service's proposal—modification number three, which would model flats preparation costs directly—resolves a major concern regarding the current method used to estimate flats preparation costs. This issue had been raised by MPA, ANM and Time Warner in Docket No. ACR2007.

However, it is important to note that another major concern previously identified by MPA, ANM, and others has not been resolved by the proposed modifications to the Periodicals cost model. This issue involves the treatment of allied costs for rate design. As described in Section II, costs for allied operations that are performed between and after the sortation of individual mail pieces (e.g., the cost of moving pieces between piece-sorting operations and loading containers of pieces onto trucks for transportation after the Postal Service has sorted them) are not reflected in the rate design.² We urge the Commission to direct the Postal Service to include these allied costs in the cost avoidance estimates presented in the FY 2008 ACR.

I. DIRECT MODELING OF “FLATS PREPARATION” COSTS

In addition to replacing old information with updated information and educated guesses with actual data, the USPS proposal resolves a major issue raised in Docket

² These costs were referred to as “allied piece costs” and “allied piece-related costs” in Docket No. ACR2007. We adopt the same terminology here.

The USPS rate design also ignores allied bundle-related costs. This should also be corrected. Doing so, however, is of less practical importance because passthroughs of bundle-related costs are currently well below 100 percent.

No. ACR2007. The third proposed modification to the Periodicals Mail Cost Model – to model directly the costs of preparing bundles of flats for processing on flats sorting equipment – alleviates a concern raised in Docket No. ACR2007 by MPA, ANM, and Time Warner, and shared by the Postal Service itself.³

The current method of modeling flats preparation costs is to distribute In-Office Cost System (“IOCS”) costs for Management Operation Data System (“MODS”) Operation Code 035 (“1FlatPrep”) to individual rate categories based on the probability that the piece will be sorted on mechanized equipment. While this approach was reasonable when first adopted in Docket No. R2006-1, it was rendered obsolete by the advent of automated induction on AFSM 100s. This deployment shifted some preparation costs from the 035 operation to a different MODS operation code – 140 – that is included in the AFSM 100 cost pool. Periodicals Mail Cost Model Modifications at 2-3. As explained in Docket No. ACR2007, the current method effectively ignores the flats preparation costs in Operation Code 140, thereby understating flats preparation costs and thus differences in flats preparation costs by rate category.

Under proposed modification three, flats preparation costs will be modeled directly based upon data collected this summer. This eliminates the dependence on IOCS data or the MODS Operation Code used to capture these costs, thus alleviating our current concern.

³ Docket No. ACR2007, Questions of MPA for Discussion at January 23, 2008 Technical Conference (Submitted January 23, 2008) at 2-3; Comments of ANM and MPA at 16-19; Time Warner Comments at 14-21; Postal Service Reply Comments at 15.

II. INCLUSION OF ALLIED COSTS IN COST AVOIDANCE ESTIMATES

The Postal Service's proposal leaves unresolved another major concern raised by MPA and ANM in Docket No. ACR2007, perhaps because the Postal Service views the issue as a matter of pricing not costing. Specifically, while both the Postal Service's current and proposed Periodicals Mail Cost Models estimate both direct piece-related costs (i.e., piece-sorting costs) and allied piece-related costs (e.g., the costs of moving pieces between piece-sorting operations and loading containers of pieces onto trucks for transportation after the pieces have been sorted), the Postal Service in Docket No. ACR2007 ignored the latter cost avoidances for rate design purposes.⁴

Ignoring these costs when designing rates is inappropriate and sends unsound and inefficient price signals to mailers. First, the Efficient Component Pricing Rule ("ECPR") indicates that all cost avoidances should be recognized in designing rate differentials.

Second, as ANM and MPA explained in Docket No. ACR 2007, including allied operations in cost avoidance estimates is consistent with the methods used to estimate cost avoidances in other classes of mail. In Docket No. R2006-1, the Commission adopted a piggyback approach to ensure that allied mail processing costs were included in First-Class Mail and Standard Mail cost avoidance models. *See, e.g.*, R2006-1 Op. & Rec. Decis. ¶ 5161.

⁴ Specifically, the cost avoidances used to calculate presort and automation passthroughs only reflected direct piece-related cost avoidances. Docket No. ACR2007, USPS-FY07-LR-3, FY07.3.Worksharing _Discount_Table-- Revised.1.22.08.xls, worksheet "Periodicals Outside County." See Docket No. ACR2007, Questions of MPA for Discussion at January 23, 2008 Technical Conference (Submitted January 23, 2008) at 3; Comments of ANM and MPA at 13-16; Time Warner Comments at 21-22.

Third, including allied operations in cost avoidance estimates will also maintain internal consistency within the Periodicals Mail Cost Model. If allied costs are not included in the cost avoidance, then the same activity (e.g., unloading a container of Periodicals at the delivery unit) will be included in the model for some preparations (e.g., mail entered on 5-Digit pallets) , but not for others (e.g., mail entered on 3-Digit pallets) . The result is an internal contradiction within the model. See Docket No. ACR 2007, Comments of ANM and MPA at 15-16 (footnote omitted) (explaining point).

CONCLUSION

For the foregoing reasons, MPA and ANM respectfully request that the Commission: (1) accept the proposed methodology changes for the production of the FY 2008 ACR; and (2) direct the Postal Service to include allied costs in its cost avoidance estimates.

Respectfully submitted,

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